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ABSTRACT

Excerpts are presented from a "Pay and Price Standards Implementation Guide," published by the Council on Wage and Price Stability (COWPS), to provide information pertinent to the compliance effort of institutions of higher education. In addition, a copy of a letter sent to Farrell Bloch, senior Economist at COWPS, defining what constitutes a "deficit" for a nonprofit organization is included. In order to comply with the pay standard, institutions must calculate rates of change of pay rates for various employee groups. Different methods of computing these changes are required for collective bargaining agreements and nonunion pay-rate increases. A method of computing the base-period pay rate and the pay rate at the end of each year of the contract period is presented. Descriptions are provided of how an institution might compute each of the following key elements needed to compute pay rates in the formula: average straight-time wage rate, hours worked and hours of leave, cost of paid-leave benefits per hour worked, and other benefit costs per hour worked. Three alternate methods of calculating nonunion pay increases are presented. Additionally, questions and answers are presented that are an extension of those reproduced in the final regulations published in the December 28, 1978 "Federal Register." (SW)

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Pay and Price Standards Implementation Guide

The Council on Wage and Price Stability (COWPS) published on January 22, 1979, a "Pay and Price Standards Implementation Guide," which includes:

(1) Illustrations of methods individual institutions can use to determine compliance with the voluntary wage and price standards; and

(2) Clarifications of the concepts used in the voluntary pay and price standards published in the December 28, 1978 Federal Register (60771-83) implementing the program (see Special Report 78-4).

Copies of the Guide may be obtained from COWPS, 726 Jackson Place, Washington, D.C. 20506. Also, the Federal Register of January 25, 1979, contained a reprint of the guide (pp. 5339-5366).

This Special Report contains excerpts of those items in the implementation guide that are pertinent to the compliance effort of institutions of higher education. It also includes a copy of a letter sent to Mr. Farrell Bloch, senior economist at COWPS, defining what constitutes a "deficit" for a nonprofit organization. This clarification was requested after oral confirmation that the following interpretation of a deficit, contained in a December 1978 letter to COWPS, conforms to the spirit of the standards:

> If wage cost increases are constrained not to exceed those allowable under the wage standard, then tuition increases needed to prevent deficits, taking into account both operating and capital requirements, will not be considered out of compliance with the price standards.

This recommendation is one of eight that were forwarded to COWPS legal counsel for confirmation in December 1978 (see Special Report 78-4, pages 9-10). No written response to these recommendations has been received, but NACUBO member institutions will be kept informed of developments as they occur.

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Note: In the remainder of this Special Report (with the exception of the letter on the last three pages), italic type is used for material prepared by NACUBO, while roman type is used for material excerpted from the COWPS "Pay and Price Standards Implementation Guide," except for minor editorial changes made by NACUBO. Nearly all the material that follows relates to the pay standard.

In order to comply with the pay standard, instititions must calculate rates of change of pay rates for various employee groups. Different methods of computing these changes are required for (1) collective bargaining agreements, which are evaluated prospectively at the time they are signed, and (2) nonunion pay-rate increases (management groups not under a collective bargaining agreement and all other employees), which are calculated retrospectively.

APPLICATION OF THE PAY STANDARD TO COLLECTIVE BARGAINING AGREEMENTS

Following is a method of computing the base-period pay rate and the pay rate at the end of each year of the contract period. Institutions will need to compute the annual compound rate of pay-rate change over the life of the contract and the percentage changes for individual years in order to determine whether the agreement complies with the standard.

The pay rate is computed as

(1) (pay rate) = (straight-time wage rate)

+ (benefit costs per hour worked).

Over any one-year interval during the contract life, the percentage increase in the pay rate is calculated as

$$(2) \quad \left[\left(\frac{\text{pay rate at the end of year } t}{\text{pay rate at the end of year } t-1}\right) - 1.0\right] \times 100.$$

The compound average annual rate of change of the pay rate over the contract life is computed as

$$(3) \quad \left[\left(\frac{\text{pay rate at end of contract}}{\text{pay rate at end of prior contract}}\right)^{\frac{1}{T}} - 1.0\right] \times 100$$

where T is the length of the contract in years. In practice, the annual rate need not be computed; compound interest tables can be used. Table 1 lists the percentage increases over the lives of contracts ranging from 12 to 40 months that are consistent with the 7 percent standard.

The following brief sections describe how an institution might compute each of the key elements needed to compute pay rates in formula (1). These elements are:

(1) Average straight-time wage rate;

(2) Hours worked and hours of leave;

(3) Cost of paid-leave benefits per hour worked; and

(4) Other benefit costs per hour worked.

TABLE 1

Total Percentage Pay-Rate Increases
Allowable Under Pay Standard by Length of Contract

Months of Contract	Allowable Percentage Increase	Months of Contract	Allowable Percentage Increase
12	7.00	27	16.44
13	7.60	28	17.10
14	8.21	29	17.76
15	8.83	30	18.43
16	9.44	31	19.10
17	10.06	32	19.77
18	10.68	33	20.45
19	11.31	34	21.13
20	11.94	35	21.82
21	12.57	36	22.50
22	13.21	37	23.20
23	13.85	38	23.89
24	14.49	39	24.59
25	15.14	40	25.30
26	15.79	48	31.08

Average Straight-Time Hourly Wage Rate

In many collective bargaining agreements there will be more than one job classification and, as a result, more than one straight-time wage rate. In order to combine these into one average straight-time wage rate, a weighted average should be constructed using the number of straight-time hours worked in each job classification as weights. In computing the base wage rate -- that in existence at the termination of the expiring contract -- the average number of hours worked in each classification over some recently completed period (e.g., a year or a quarter) would be appropriate. These same weights should be applied in the prospective determination of average straight-time wage rates over the life of the new contract.

In most cases, the number of employees in each job classification may be used as weights rather than hours worked. This method is appropriate if straight-time hours worked per employee are similar across job classifications. The following illustrative example uses employee weights.

TABLE 2

(1) Job Classification	(2) Number of Employees	(3) Straight-Time Hourly Rate at End of Expiring Contract	(4) (2) x (3)
A	10	$5.50	$55.00
B	30	$6.50	$195.00
C	20	$6.75	$135.00
D	40	$7.15	$286.00
Total	100		$671.00

Average Straight-Time Hourly Wage Rate

$$\frac{\$671.00}{100} = \$6.71$$

Hours Worked and Leave Hours

The pay rates used in the standard should reflect pay per straight-time hour worked. In order to translate pay for leave time and other benefit payments into an hourly rate, it is first necessary to make an estimate of the number of hours worked and the amount of paid leave time. An example of how this might be done follows:

TABLE 3

Straight-time hours paid (40 hours per week x 52 weeks)	= 2080
less 8 holidays x 8 hours:	-64
less 20 vacation days x 8 hours:	-160
less 3 days sick leave (on average) x 8 hours:	-24
less an average of 1 day of other leave (e.g., jury duty, funeral leave, and administrative leave) x 8 hours:	-8
Average straight-time hours worked:	1824

In this example, the average number of straight-time hours worked is 1824 hours per year and the average number of paid-leave hours is 256 hours per year. Thus, an employee receives approximately one hour of paid leave for each seven hours worked (1824/256 = 7.125). In what follows, the terms "hours worked" and "straight-time hours worked" are used interchangeably.

Hourly Cost of Paid-Leave Benefits

Holiday, vacation, and other paid leave constitute one important type of fringe benefit: pay for time not worked. In order to compute the cost of leave time per hour worked, it is necessary to multiply the average straight-time wage rate by the (annual) number of hours of paid leave and divide by the (annual) number of straight-time hours worked. For example, using the figures developed above,

$$\left(\begin{matrix}\text{hourly cost of}\\ \text{paid leave}\end{matrix}\right) = \left(\begin{matrix}\text{straight-time}\\ \text{wage rate}\end{matrix}\right) \times \left(\frac{\text{hours of leave}}{\text{hours worked}}\right)$$

$$= (\$6.71) \times \left(\frac{256}{1824}\right)$$

$$= \$.942 \text{ per hour worked.}$$

In this case, the cost of paid leave at the end of the expiring contract is 94.2 cents per hour worked. Over the life of the new contract, the hourly cost of paid leave will increase (due to roll-up) as the straight-time wage rate increases. Further, if additional vacation days or holidays are granted under the new contract, hours of leave will increase and hours worked will decrease correspondingly. Both of these changes increase the hourly cost of paid leave. Conversely, reductions in hours of leave decrease the hourly cost of paid leave for a given wage rate.

Hourly Cost of Other Benefits

In most cases, the cost per hour worked for other benefits can be calculated by first converting the average employer cost per employee to an annual cost and then converting to an hourly rate. In the following example, a monthly employer cost and an hourly contribution rate are translated into an employer cost per hour worked.

Example A. Employer contributions for a benefit package are $50 per month for each employee. This monthly cost is multiplied by 12 months to obtain an annual cost of $600 per year. When divided by average hours worked (1824 hours per year), the cost of the benefit per hour worked is 32.9 cents per hour worked. That is,

$$\left(\begin{matrix}\text{benefit}\\ \text{cost per}\\ \text{hour worked}\end{matrix}\right) = \left(\begin{matrix}\text{50 dollars}\\ \text{per month}\end{matrix}\right) \times \left(\begin{matrix}\text{12 months}\\ \text{per year}\end{matrix}\right) \div \left(\begin{matrix}\text{1824 hours}\\ \text{worked per}\\ \text{year}\end{matrix}\right)$$

$$= 32.9 \text{ cents per hour worked.}$$

Example B. Employer contributions for a benefit package are 20 cents per hour paid. Since hours paid include paid leave, this value must be translated into an employer cost per hour worked. Given a 40-hour straight-time work week (2080 hours per year), the annual straight-time cost is $416 per year ($.20 x 2080). Division by average hours worked (1824 hours per year) yields the cost of the benefit per hour worked:

$$\left(\begin{matrix}\text{benefit}\\ \text{cost per}\\ \text{hour worked}\end{matrix}\right) = \left(\begin{matrix}\text{20 cents}\\ \text{per hour}\end{matrix}\right) \times \left(\begin{matrix}\text{2080 hours}\\ \text{per year}\end{matrix}\right) \div \left(\begin{matrix}\text{1824 hours}\\ \text{worked per}\\ \text{year}\end{matrix}\right)$$

$$= 22.8 \text{ cents per hour worked.}$$

The remainder of this section costs out an illustrative, hypothetical contract.

Illustration

A new contract takes effect on March 1, 1979. Relevant data concerning pay rates at the expiration of the old contract are as follows:

(1) The average straight-time wage rate under the expiring contract -- the base wage rate -- is $6.71 per hour (see Table 2, page 4);

(2) The average number of paid-leave hours is 256 per year and the average number of straight-time hours worked is 1824 per year (see Table 3, page 4);

(3) Other fringe benefits costs at the end of the expiring contract are:

(a) Employer contributions to a flat-rate pension fund (the benefit is stated in terms of dollars per month times years of service) of $50 per month per employee, or 32.9 cents per hour worked (see Example A, page 5);

(b) Employer contributions for health insurance of $35 per month per employee, or 23 cents per hour worked;

(c) Employer contributions to life insurance equal to one percent of employee straight-time hourly wages, providing a survivor benefit equal to two times annual wages;

(d) Supplemental unemployment benefits, which cost the employer $300 per year per employee, or 16.4 cents per hour worked; and

(e) A uniform allowance, averaging $200 per year per employee, or 11.0 cents per hour worked.

The new contract provides for

(1) Fixed wage-rate increases of 7 percent on March 1, 1979 -- the first day of the new contract -- and 6 percent on March 1, 1980 -- the first day of the second year of the new contract;

(2) Maintenance of existing paid-leave provisions, life insurance benefits, supplemental unemployment benefits (employer contributions remain at 16.4 cents per hour worked), and uniform allowance (employer cost remains at 11.0 cents per hour worked);

(3) Maintenance of existing health benefits, with employer-paid premiums estimated to increase to $39 per month per employee in the first year and to $43 in the second;

(4) An increase of pension benefit rates, requiring an increase in employer contributions to $55 per month per employee, or 36.2 cents per hour worked, effective at the beginning of the new contract; and

(5) Addition of a dental-care plan, estimated to cost $16 per month per employee in the first year, or 10.5 cents per hour worked, and $17 per month per employee in the second year, or 11.2 cents per hour worked.

The contract is costed out below in four steps:

(1) Calculation of the base pay rate;

(2) Calculation of the first-year pay rate;

(3) Calculation of the second-year pay rate; and

(4) Calculation of percentage changes in the pay rate (and comparisions to the allowable percentage increases).

Step 1

Calculation of Base Pay Rate

Average wage rate	$6.71
Benefits	
Paid leave ($6.71) x $\left(\frac{256}{1824}\right)$	.942
Pension fund	.329
Health insurance	.230
Life insurance (.01 x $6.71)	.067
Supplemental unemployment benefits	.164
Uniform allowance	.110
Total (base pay rate)	$8.552/hour

Step 2

Calculation of First-Year Pay Rate

Average wage rate (1.07 x $6.71)	$7.18
Benefits	
Paid leave ($7.18) x $\left(\frac{256}{1824}\right)$	1.008
Pension fund	.362
Health insurance (1.07 x $.230)	.246
Life insurance (.01 x $7.18)	.072
Supplemental unemployment benefits	.164
Uniform allowance	.110
Dental care	.105
Total (pay rate)	$9.247/hour

The health insurance contribution per hour worked is calculated by increasing the base contribution of 23.0 cents per hour worked by 7 percent, since the estimated first-year increase in the health premium is 11.4 percent, and only the first 7 percent of the increase is counted in calculating the new pay rate (see the Pay Standard, section 705B-6).

Step 3

Calculation of Second-Year Pay Rate

Average wage rate (1.06 x $7.18)	$7.61
Benefits	
Paid leave ($7.61) x $\left(\frac{256}{1824}\right)$	1.068
Pension fund	.362
Health insurance (1.07 x $.246)	.263
Life insurance (.01 x $7.61)	.076
Supplemental unemployment benefits	.164
Uniform allowance	.110
Dental care	.112
Total (pay rate)	$9.765/hour

Step 4

Calculation of Percentage Change in Pay Rate

	Pay Rate	Percentage Change	Allowable Percentage Change	
Base	$8.552	-----	-----	Does not
First Year	$9.247	8.13%	8.00%	comply
Second Year	$9.765	5.60%	8.00%	Complies
Life of contract	-----	14.18%	14.49%	Complies
(Annual Average)	-----	(6.86%)	(7.00%)	Complies

As the first-year increase exceeds 8 percent, the contract does not comply with the pay standard, even though the average annual rate of increase over the life of the contract is less than 7 percent. Since the second-year increase is only 5.6 percent, the contract can be brought into compliance by an appropriate reallocation of some of the increase from the first to the second year. For example, deferral of the establishment of the dental-care plan until the second year would lower the first-year pay rate by 10.5 cents per hour. This alteration in the contract results in the following percentage changes:

Calculation of Percentage Changes in Pay Rate
(Assumes Dental Plan Introduced in Second Year)

	Pay Rate	Percentage Change	Allowable Percentage Change	
Base	$8.552	-----	-----	
First Year	$9.142	6.90%	8.00%	Complies
Second Year	$9.765	6.81%	8.00%	Complies
Life of Contract	-----	14.18%	14.49%	Complies
(Annual Average)	-----	(6.86%)	(7.00%)	Complies

Note: The above calculations make no distinction between wage-related increases (roll-up) and non-wage-related increases in fringe benefit costs; each benefit cost per hour is calculated directly in an appropriate manner. Often it is useful to separate wage-related benefits -- benefits for which employer costs are proportional to wage rates -- since the cost of providing these benefits will roll up directly with the wage-rate increase. These benefit costs can be derived using a roll-up factor. In the example, only paid leave and life insurance are wage-related. The percentage roll-up factor is calculated as follows:

Wage-Related Benefits

Cost of paid leave per hour worked	$.942
Life insurance cost per hour worked	.067
Total	$1.009

$$\text{Roll-up factor} = \frac{\text{Wage-related benefits}}{\text{Base wage rate}} = \frac{\$1.009}{\$6.71} = 15.0\%$$

This roll-up factor can be used to calculate benefit cost increases for the wage-related benefits. The increases summarized in step 4 above can be calculated alternatively as follows (assuming that the dental care plan is introduced in the first year).

Percentage Increases in Pay Rates

	(1) Wage Increase	(2) Roll-up .15 x (1)	(3) Increase in Other Benefits Costs	(4) Increase in Pay Rate (1)+(2)+(3)	(5) Pay Rate	(6) Percent change
Base	-----	-----	-----	-----	$8.552	-----
First Year	$.47	$.070	$1.54	$.694	$9.246	8.12%
Second Year	$.43	$.065	$.024	$.519	$9.765	5.61%

Column (1) is the average wage-rate increase derived from steps 1,2, and 3 above. Column (2) applies the roll-up factor to the wage-rate increase in column (1). Column (3) is obtained by summing the increases in the non-wage-related components of fringe benefits (employer contributions to the pension fund, health insurance, supplemental unemployment benefits, and the uniform allowance), which are developed from the information in steps 1,2, and 3 presented above. Column (4) sums the pay-rate changes in columns (1), (2), and (3). In column (5), the pay-rate increases in column (4) are successively added to the base pay rate. Finally, column (6) presents the annual percentage changes. The trivial differences between the above percentage changes and those calculated in step 4 above are due to rounding differences.

APPLICATION OF THE PAY STANDARD TO NONUNION PAY RATES

Nonunion pay increases may be calculated by three alternative methods:

(1) This method provides for a simple comparison of the average pay rate in the last quarter of the program year with the average pay rate in the base quarter. This method is the least complex and includes the effect of all pay-rate changes, including those due to promotions and shifts in the work-force composition.

(2) This method permits an adjustment to control for the effects of shifts in the composition of the work force among distinct employee groups with different average pay rates.

(3) This method excludes the effects of promotions as well as turnover of the work force. It allows measurement of the pay-rate change for the fixed population of workers employed throughout the program year.

Illustrations of these alternative methods are given below:

METHOD 1: Computation of Average Pay-Rate Change (705B-4 (a))

The employee unit includes 100 workers with the following pay rates in the base quarter:

Classification	Number of Workers	Average Pay Rate*
A	25	$ 10/hr.
B	25	$ 8/hr.
C	50	$ 6/hr.

* The average pay rate in each job classification includes the cost of private fringe benefits per hour. See preceding section on collective bargaining agreements for treatment of benefit costs and the conversion of these costs to costs per hour worked.

All employees work 500 straight-time hours in the quarter. The base pay for this unit is calculated as:

A: 500 hrs. x $10/hr. x 25 workers = $125,000

B: 500 hrs. x $ 8/hr. x 25 workers = $100,000

C: 500 hrs. x $ 6/hr. x 50 workers = $150,000

Total base pay = $375,000

Total hours = 500 hours x 100 workers = 50, 000 hours

The base quarter pay rate = $375,000 ÷ 50,000 hours

= $7.50/hour

All job classsifications in this example receive a 7 percent pay-rate increase over the program year and employment expands by 5 employees in category B and by 5 in category C. The unit now has the following pay rates in the final quarter of the program year:

Classification	Number of Workers	Average Pay Rate
A	25	$10.70
B	30	$ 8.56
C	55	$ 6.42

The average pay rate in the final quarter is calculated as

A: 500 hrs. x $10.70/hr. x 25 workers = $133,750

B: 500 hrs. x $ 8.56/hr. x 30 workers = $128,400

C: 500 hrs. x $ 6.42/hr. x 55 workers = $176,550

Total pay = $438,700

Total hours = 500 hours x 110 workers = 55,000 hours

The final-quarter pay rate = $438,700 ÷ 55,000 hours

= $7.98/hour

Using the method of Section 705B-4 (a), the percentage change in the average pay rate is computed as

$$\text{Pay-rate change} = \left(\frac{\text{Final-quarter pay rate}}{\text{Base-quarter pay rate}} - 1.0\right) \times 100$$

$$= \left(\frac{\$7.98}{\$7.50} - 1.0\right) \times 100$$

= 6.40%

This employee unit complies with the 7 percent pay standard. The actual pay-rate change (6.40%) is below the 7 percent increase given to each job classification due to the effect of the shift in the work-force composition.

METHOD 2: Adjustment for Changes in Work-Force Composition (705B-4 (e))

In the previous illustration, the shift in the composition of the work force reduced the measured increase in the average pay rate. For some employee groups, however, such shifts may exaggerate the average pay-rate increase.

This is illustrated by the following situation, which begins with the same base-period pay rates and work-force composition as in the preceding example. However, in this case the number of workers in "A" classification increases by 5 employees and the number in the "C" classification decreases by 10 employees during the program year. As in the preceding example, a 7 percent pay-rate increase is given to each classification. The job mix and pay rates in the final quarter are:

Classification	Number of Workers	Average Pay Rate
A	30	$10.70
B	25	$ 8.56
C	40	$ 6.42

Under these conditions, the average pay rate in the final quarter is computed as:

A: 500 hrs. x $10.70 x 30 workers = $160,500

B: 500 hrs. x $ 8.56 x 25 workers = $107,000

C: 500 hrs. x $ 6.42 x 40 workers = $128,400

Total pay = $395,900

Total hours = 500 hours x 95 workers = 47,500 hours

The final-quarter pay rate = $395,900 ÷ 47,500 hours

= $8.33/hour

The average pay rate increases from $7.50 per hour to $8.33 per hour -- an increase of 11.1 %. If Method 1 were used, this employee unit would exceed the 7 percent standard, even though no job classification was given a pay-rate increase of more than 7 percent. The excess is due to the shift in the composition of the work force.

Section 705B-4 (e) of the standards permits the calculation of a weighted-average pay-rate change that excludes the effect of such compositional shifts. Using this method, it is assumed that the composition of the work force remains the same as in the base quarter. This is done by

(1) Computing the share or fraction of total base-quarter pay accounted for by each employee subgroup;

(2) Computing the percentage change in the average pay rate for each employee subgroup; and

(3) Computing a weighted average pay-rate change using the payroll shares as weights.

For the example developed above, these computations are:

$$\left(\begin{array}{c}\text{Weighted-Average}\\ \text{Pay-rate Change}\end{array}\right) = \left\{\begin{array}{l}\text{Sum of}\\ \text{Product}\end{array}\right. \left[\left(\begin{array}{c}\text{Payroll}\\ \text{Share}\end{array}\right) \times \left(\begin{array}{c}\text{Percentage Pay-}\\ \text{rate Change}\end{array}\right)\right] \left.\right\}$$

Classification	(1) Base-Quarter Payroll*	(2) Base Payroll Share	Percentage Pay-rate Change	Weighted Change (1) x (2)
A	$125,000	.333	7.0%	2.33%
B	$100,000	.267	7.0%	1.87%
C	$150,000	.400	7.0%	2.80%
Total	$375,000	1.000		7.00%

*Note: The base-quarter payroll values are those used in calculating the base-quarter pay rate in the Method 1 section.

In this example then, the weighted average pay-rate change is 7 percent and the employee unit complies with the pay standard.

METHOD 3: Computations Using Continuing Employees (705B-4 (b))

The method in Section 705B-4 (b) of the standards allows institutions to measure pay-rate changes of individual workers after excluding the effects of legitimate job promotions. The computation is based on the average of pay-rate increases for those employees who remain with the institution throughout the program year.

As illustrated in the following table, this example involves an employee unit with 5 workers in the base quarter. Each of these workers falls into an individual job category, and the corresponding job rates are indicated in column (1). During the program year, each job rate is increased by 7 percent. Column (2) presents the job rates that would apply to each individual in the final quarter of the program year if the job had remained unchanged. Column (3) presents the job changes occurring during the program year. Column (4) indicates the final-quarter pay rates after the effects of turnover, promotion, and hiring activity. Column (5) isolates the cents-per-hour increases due to promotions.

Pay-Rate Data for Individual Employees

Worker	(1) Initial Job Rate	(2) Terminal Job Rate ((1) x 1.07)	(3) Job Action	(4) Final Pay Rate	(5) Promotional Increase
1	$10.50	$11.24	Unchanged	$11.24	-----
2	9.75	10.43	Leaves	-----	-----
3	9.50	10.17	Promoted	10.43	$0.26
4	9.25	9.90	Promoted	10.17	0.27
5	9.00	9.63	Unchanged	9.63	-----
6	-----	-----	New Hire	10.17	-----

The final-pay-rate data in column (4) reflect the effects of increases in job rates and the promotions and turnovers described in column (3). The job changes by individuals in this example are as follows:

- Individual 1 retains the original job.
- Individual 2 leaves the employee unit.
- Individual 3 is promoted to the job vacated by individual 2.
- Individual 4 is promoted to the job vacated by individual 3.
- Individual 5 retains the original job.
- Individual 6 is a new hire brought in for the same job to which individual 4 has been promoted.

The shift in work requirements during the program year has resulted in elimination of one job category -- the one originally occupied by individual 4 -- and requires having two workers in another category -- the category to which individual 4 was promoted and which the new hire, individual 6, entered.

Using the method of Scetion 705B-4 (b), the average pay-rate change is computed solely on the basis of those individual workers who are employed throughout the program year -- workers 1,3,4, and 5. The portion of pay-rate increases entirely due to the job changes and corresponding promotions for individuals 3 and 4 is excluded. As seen in the preceding table, these promotional increases sum to 53 cents per hour. The appropriate computations are summarized in the table on the next page.

Although the average pay rate for continuing employees has risen by 8.4%, the average pay rate, after excluding the effect of promotions, has increased only 7 percent.

Institutions using this method should exclude promotion increases only when there is a legitimate change in job responsibilities and should be able to demonstrate that the cost of promotions during the program year is consistent with that of prior years.

Average Pay Rate for Continuing Employees

Worker	Initial Pay Rate	Final Pay Rate	Percentage Change in Pay Rate
1	$10.50	$11.24	7.0%
3	9.50	10.43	9.8%
4	9.25	10.17	9.9%
5	9.00	9.63	7.0%
Total	$38.25	$41.47	8.4%
Less promotions	0.00	0.53	
Adjusted pay	$38.25	$40.94	7.0%

QUESTIONS AND ANSWERS

The following questions and answers are an extension of those reproduced in the final regulations published in the December 28, 1978 Federal Register (see Special Report 78-4, pages 16-21).

Pay

Question 1: May different pay computation methods for different employee units within one institution be used?

Answer: Yes. But once a method is chosen for a particular unit, it should not be changed later in the program year to another method.

Question 2: If an institution is required to make retrospective payments to an employee or employees as the result of legal action, should these payments *be included in the calculation of pay increases?*

Answer: No.

Question 3: When excluding legitimate promotion increases under *Method 3 of pay computations,* what amount should be included as pay-rate increases?

Answer: The institution should count any increases that the employee would have received in the absence of the promotion. This method is intended for promotions from one job paying a fixed rate to another fixed-rate job. Firms with salary ranges that combine merit increases with promotions are expected to use *Method 1.* However, if there is a basis for separating the merit and promotional increases, *Method 3* may be used.

Question 4: When using the fixed-population method for determining compliance, must the institution recompute the base-quarter compensation rate to exclude the employees no longer with the company?

Answer: Yes.

Question 5: May an institution increase its pay to salaried employees to compensate for an increase in hours worked per day or days worked per week?

Answer: Such increases pose a special problem because salaried employees typically are not paid by the hour, but by the month or year. If an institution wishes to give pay increases for additional hours worked for salaried employees, the burden rests with the institution to show that there is an actual increase in hours worked.

Question 6: Should increased pension benefits for retirees *be included in the calculation of* pay increases?

Answer: Since retirees are not employees under the standard, pension costs for retirees would normally be excluded from all pay calculations for the employee unit -- both in the base period and in the program year. However, if it is an institution's normal practice to treat retiree pension benefits as part of an employee unit's base compensation package, improvements in such benefits should be charged as a pay increase for the unit.

Question 7: Can reductions in pension costs due to changes in actuarial assumptions or funding methods be used as a credit toward other pay-rate increases?

Answer: No.

Price

Question 1: If a multi-campus institution treats each of its campuses as a separate *"compliance unit"* in accordance with the requirements of section 705D, is an individual campus free to use the *operating*-margin limitation *while other campuses use the price deceleration method, or must they all use the same price standard for the purpose of compliance?*

Answer: The different campuses do not have to use the same standard.

Question 2: In section 705A-6 there are two reasons for the application of the *operating*-margin limitation exception, one being "uncontrollable price increases in goods and services it buys." How are such uncontrollable cost increases defined?

Answer: The wording of section 705A-6 is intended to convey the notion that institutions are asked to make a good-faith effort to comply with the price deceleration standard, and to revert to the *operating*-margin limitation exception only if such compliance would cause a significant deterioration of the *institution's operating* position. The effort to comply with the price-deceleration standard entails a good-faith effort to hold down costs, hence the reference to "uncontrollable" cost increases. However, the extent to which cost increases are uncontrollable will depend on individual circumstances. The following nonexhaustive list includes items which, if they rise in price, might be included as "uncontrollable" increases:

(1) Government-mandated cost increases (such as payroll taxes); (2) Increased labor costs dictated by collective bargaining agreements or annual pay plans in effect prior to October 24, 1978; (3) Utility-rate increases; and (4) Raw materials purchased from outside the U.S.

On the following pages is a copy of the ACE-NACUBO letter to COWPS concerning a deficit with respect to the voluntary wage and price standards.

AMERICAN COUNCIL ON EDUCATION
ONE DUPONT CIRCLE
WASHINGTON, D. C. 20036

ECONOMICS AND FINANCE UNIT

January 5, 1979

Mr. Farrell Bloch
Senior Economist
Council on Wage and Price Stability
726 Jackson Place, N. W.
Room 4017-A
Washington, D. C. 20506

Dear Mr. Bloch:

Pursuant to our telephone conversation on Tuesday, January 3, 1979 relating to the ACE-NACUBO memorandum of December 20, 1978, it is our understanding that the position of the Council on Wage and Price Stability at this time is:

> Implementation of the wage and price standards at the nonprofit higher education institutions in accordance with recommendations set forth in the December 20 memorandum will be considered a good faith interpretation and in compliance with the standards, except that:
>
> a) The Council is not prepared, at this time without further consideration, to consider unrestricted fund deficits as undue hardship in determining allowable tuition increases, and
>
> b) the approach to the determination of undue hardship should be procedural in accordance with steps to be specified in regulations to be issued in the near future.

It is the position of ACE and NACUBO that:

1. Resort to procedural determination of undue hardship would not be as equitable or efficient as would be an explicit substantive standard for nonprofit higher education institutions, and that

2. In framing the substantive standards a deficit in the unrestricted fund of a college or university taking into account both current operating and capital requirements should constitute a rebutable presumption of undue hardship.

It is our position that general reliance on a procedural approach would not be workable. First, the procedural route to determination of compliance is designed to handle the exceptional case. But, in higher educational institutions, deficits are not unusual. The Council and the higher education sector could possibly be faced with the burden of hundreds of separate cases arising from among the over three thousand institutions. Widespread reliance on a procedural determination reduces ultimately the possibility

of self-enforcement through a clearly stated standard. Equity in administering a procedural remedy will require a substantive standard defining undue hardship. Therefore the Council can not avoid a substantive decision by resorting to procedural remedies but will only extend the period of uncertainty.

Fairness to students requires adequate notice of their student charges so that they can budget for their expenses. Therefore the colleges and universities are pressing for early clarification of the standards as they apply to the nonprofit institutions.

Regulations published in the Federal Register on January 4, 1979, define undue hardship as a condition that "seriously threatens the financial viability of (an institution)." It is our position that deficits threaten the financial viability of a college or university and clearly fall within the definition of undue hardship.

Deficits have to be covered by some means. If they are met by borrowing, debt service has to be incorporated into the current operating budget which subsequently must be met, in part, by tuition increases. Or the deficit has to be met by consumption of capital assets, which can not be sustained and threatens the financial viability of the institution.

We understand that the Council is concerned that the use of a deficit in framing a standard for compliance may be either ambiguous or lax as a criterion. But a deficit as a criterion in the nonprofit sector is not any more ambiguous or lax than a loss in the profit sector.

The definition of a deficit should be framed with reference to the financial activity in the current funds only. The term "current" means that the resources will be expended in the near term and they will be used for operating purposes. These are the funds to which tuition is applied.

A deficit in a college and university occurs when the fund balance of the current funds less capital requirements is a negative amount. This fund balance can be verified in the annual financial statement of an institution that is usually prepared and audited by an outside accounting firm. It also can be verified by the data in the annual Higher Education General Information Survey (HEGIS) submitted to the National Center for Education Statistics (NCES) in Part F, "Statement of Changes in Fund Balances for Fiscal Year."

Both the annual financial statement and the report to NCES are based on generally accepted accounting practices approved by the American Institute of Certified Public Accountants for audit guide audits.

There apparently has been some suggestion that a deficit at an institution in any one year might constitute insufficient hardship to be considered "undue." In confronting financial exigency, it is difficult to argue that a nonprofit institution can absorb a one-year deficit more easily than a profit oriented business can absorb a one-year loss. From the perspective of cash requirements, a loss of a business reduces outlays for taxes and can also be carried forward into more prosperous years. A nonprofit institution ordinarily does not have the benefit of these kinds of income averaging financial devices but must confront the shortfall in the current accounting period.

We would appreciate your comments on this formulation of standards with respect to a deficit. It is our firm conviction that a substantive rather than a procedural approach is far more workable, and that in the spirit of establishing standards which are fair, simple, and self-enforcing, the deficit should be considered a rebuttable presumption of undue hardship. This formulation, we believe, properly shifts the burden of proof to the government to show when in some exceptional case a deficit is not an undue hardship to a college or university.

Sincerely,

Carol Van Alstyne

Carol Van Alstyne
Chief Economist
The American Council on Education

D. F. Finn

D. F. Finn
Executive Vice President
National Association of College
and University Business Officers

Publications for More Effective College and University Administration

College and University Business Administration, Third Edition (1974). This edition, a complete revision of the 1968 version, includes seven new chapters on financial accounting and reporting. Known as the most authoritative guide to principles of business and financial management in higher education, it is a basic reference for the business officer, members of governing boards, state budget and finance officers, accountants and others. $20.00.

Administrative Service. Incorporating *College and University Business Administration,* Third Edition, the Service is available in two distinctive looseleaf binders, which permit revision and supplementation. Subscriptions are on a calendar-year basis, and materials are mailed every two months. This publication enables the business or financial officer to keep up-to-date on management principles and practices in higher education. Subscriptions are available at $30.00 annually to members ($15.00 for renewals) and $50.00 annually to nonmembers ($40.00 for renewals).

Federal Regulations and the Employment Practices of Colleges and Universities (1974), published by the association and cosponsored by eight other organizations, is a looseleaf service providing higher education administrators with in-depth information on federal laws affecting institutional employment practices. Twelve areas of federal law are covered by the service, which is revised several times each year to reflect new government directions. One free copy is provided to each member institution. Additional annual subscriptions are currently available for $30.00 each, with a yearly renewal fee of approximately $15.00.

A College Planning Cycle: People, Resources, Process (1975). A successor to *Planning, Budgeting and Accounting: Section II of a College Operating Manual,* this planning guide enables colleges and universities to implement planning and budgeting without consultants. Planning and budgeting are treated as part of one process and the procedures utilize the "team" concept. $10.00.

Management Reports: A System of Reporting and Accounting (1976). This manual is designed to express a philosophy of reporting and to present a logical system of accounting from which informative reports might emanate. Together with *A College Planning Cycle,* it offers a comprehensive approach to planning, budgeting, accounting and reporting. $10.00.

Government Contracts and Grants for Research: A Guide for Colleges and Universities (1975). This is a compilation and analysis of more than 100 contract clauses that appear in federal agreements. There are narrative sections on research grants and sponsored programs of private foundations. This is a valuable reference tool for those involved in administering programs sponsored by the federal government. $15.00.

Procedures for Determining Historical Full Costs (1977) is a manual that concerns implementation of the information exchange procedures (IEP) developed by the National Center for Higher Education Management Systems (NCHEMS). The publication was developed jointly by NCHEMS and NACUBO. $5.00.

Risk Management and Insurance: Guidelines for Higher Education (1972). The book includes an in-depth analysis of evaluating and treating risk on campus, with specific discussions of property insurance, casualty and liability insurance, insured fringe benefits, and the relationship between higher education and the insurance industry. $5.00.

Reporting on Investments of Endowment Funds (1975) is a monograph designed to encourage and assist college and university officers at institutions having permanent funds to make a public report of the stewardship of those funds. It includes areas of general concern to most readers of reports on the management of endowment assets and describes and demonstrates reporting formats and performance measurement techniques. $5.00.

Bond Valuation for Colleges and Universities (1977) evaluates various methods and services used for pricing bonds with the view of providing college and university administrators with criteria for choosing the method and service suitable to the institution's bond portfolio. $5.00.

Investment Policies and Procedures at Selected Colleges and Universities (1977) is a compilation of investment policies and procedures in effect at ten colleges and universities and at The Common Fund. The three subjects covered in the guide are: investment goals and objectives, accepting life income funds and gift annuities, and social responsibility in investing. $10.00.

Energy Management for Colleges and Universities (1977) was written to assist college and university administrators in designing, implementing, and sustaining efficient energy management programs so that institutions of higher education may insure continuance of service in the traditional areas of instruction, research, and public service. $20.00.

Student Loan Collection Procedures (1977) is a manual designed to present business and financial aid officers with a general process for the collection of student loans. In addition to coverage of general practices and procedures, specific requirements are discussed regarding the NDSL, GSL, Health Professions, and Nursing loan programs. $10.00.

Cash Management and Short-Term Investments for Colleges and Universities (1977) is a detailed description of how to make maximum use of temporary excess working capital (permanent funds are not considered in this book). Included are methods of investing in money market instruments and measuring yield. The book is written in nontechnical terms. $15.00.

Conference for Women Administrators on Financial Management of Colleges and Universities (1977) is a manual with more than 200 pages of lecture material, case studies, visual aid material, handout and logistical details necessary for conducting financial management conferences. $25.00.

Wage and Salary Administration for Smaller Institutions of Higher Education: A Basic Guide to Management Practice (1974) contains a number of indexes for job evaluation, job classification, and salary determination. $5.00.

The above publications are available from NACUBO, One Dupont Circle, Suite 510, Washington, D.C. 20036. Send a check made payable to NACUBO or a purchase order number. Purchase orders are acceptable from association members only.